WA Oil & Gas: Explorer / Producer

STRIKE ENERGY LTD

STX.asx
Buy

Proposed Acquisition Could Add Significant Value

Strike Energy Limited ("Strike", "STX", "Company") recently announced that it has acquired an option to purchase 100% of the equity in unlisted Blade Petroleum Ltd ("Blade"). The deal is subject to completion of due diligence by the 31st Jan 2010. Consideration is $10m in Strike shares at an issue price of $0.30 with two additional tranches of $5m in cash dependent upon free cashflow milestones being achieved from Blade's assets.

Blade's only asset is an 80% interest in Service Contract 6 ("SC6") located offshore in the Philippines. The block contains the Cadlao oilfield, which produced 11 million barrels between 1981 and 1991. Independent consultant RISC has estimated remaining 2P reserves of 6.3 million barrels using an average oil price assumption of US$74/bbl (1P reserves 3.6 million barrels).

Base Case Development Option Worth US$65m or 20cps

The Company is yet to release capital estimates for a proposed development option; however, historical information released by Blade and numbers for a nearby development proposed by Nido Petroleum Ltd put upfront capital estimates at between US$20-US$40m. Phase 2 capex (U$60m) would be funded from free positive cashflow. We have included only a notional amount for Cadlao in our valuation until the deal is finalised. The following scenarios below give an indication of potential value.

Scenario	Reserves (mmbbl)	Phase 1 Capex	Phase 2 Capex	Opex p.a.	Net Present Value
Low	3.6	$50m	$0m	$60m	($5m)
Base	6.2	$40m	$60m	$54m	$81m
High	7.5	$40m	$60m	$54m	$126m

Source: Hartleys, 10% Discount Rate, Oil Price US$75, all numbers 100% project in USD

Asset Pipeline Attractive

Strike has producing assets in the USA, which are cashflow positive and has a strong balance sheet with A$13m in cash and A$6m debt. Up to 10 exploration wells are planned for CY2010 over two joint ventures. Drilling has commenced at one of the joint ventures and the other is scheduled to start in Feb 2010.

Strike is due to commence core hole drilling at its Southern Cooper coal seam gas ("CSG") permit PEL96 in Feb 2010 (STX 66.7%). Initial findings should be available by mid 2010. A positive result could be transformational as the independent net resource estimate is 5,000-13,000 petajoules of gas in place.

The acquisition of Blade, with its near term development project, could provide additional revenue by the end of CY2010 (we believe more likely Q1 2011).

The Company has an interest in a shallow oil prospect, located in the Carnarvon Basin that could be drilled later this year, pending current negotiations.

In addition, Strike has a 100% owned JORC compliant coal resource in South Australia that is suitable for above ground gasification.

Many Catalysts, Significant Upside from Drilling / Development

Strike is set to have a very busy CY2010, with exploration drilling in the USA, appraisal drilling for coal seam gas in Australia, possible shallow offshore oil exploration in Australia and likely development of the Cadlao oilfield in the Philippines. Even moderate success at one of these four projects should result in significant share price appreciation. We rate Strike as a Buy, with a short-term price target of 43cps.

	22 Jan 2010
Share Price:	$0.295
6mth Price Target:	$0.43

Brief Business Description:
Production assets in the US. CSG appraisal in Australia. Shallow oil development Philippines.

Hartleys Brief Investment Conclusion
Valuation underpinned by US assets. One of several projects could be transformational.

Chairman & CEO:
Jeffrey Schneider (Chairman)
Simon Ashton (Managing Director)

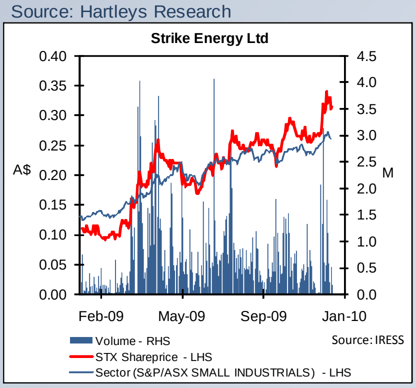
Top Shareholders:
Plato Prospecting Pty Ltd (6.9%)
Calm Holdings Pty Ltd (6.1%)
National Nominees Limited (5.7%)

Company Address:
Level 9, 40 The Esplanade
Perth, WA, 6000

Valuation:	$0.72
Issued Capital:	328.6m
- fully diluted	334.3m
Market Cap:	$96.9m
- fully diluted	$98.6m
Debt (30 Jun '09):	-$5.8m
Cash Equiv (30 Jun '09):	$17.3m

	FY09e	FY10e	FY09e
Prodn (mmboe)	0.612	0.420	0.300
Op Cash Flw	$22.8m	$15.5m	$10.2m
Free Cash Flw	$7.0m	$5.5m	$0.2m
NPAT* (A$m)	$10.2m	$2.4m	$2.4m
EPS ($, bas)*	3.0x	0.7x	0.7x
P/E (basic)*	9.8x	41.2x	41.7x
EV / EBITDA	6.1x	13.3x	15.8x
DPS ($)	-	-	-
Franking	100%	100%	100%
Dividend Yield	0.0%	0.0%	0.0%
N.D. / equity	17%	17%	15%
Chg in Cash	4.8	5.9	1.2
- per share			
Net Cash End	$13.9m	$22.7m	$31.5m
2P Reserve (bcfe)		19.30	
EV / 2P Reserve		$4.49	

*normalised
Source: Hartleys Research



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Hartleys has provided corporate advice within the past 12 months and continues to provide corporate advice to Strike Energy Limited. See disclosure on back page for details.

SUMMARY MODEL

Strike Energy Limited — **Share Price**
STX — **$0.30**

January 2010
BUY

Key Market Information	
Share Price	**$0.30**
Market Capitalisation	$97m
52 Week High-Low	$0.35-$0.31
Issued Capital	328.6m
Issued Capital (fully diluted inc. ITM options)	334.3m
Options	12.0m@$A0.26
Hedging	
Yearly Turnover/Volume	$41.9m/185.8m shares
Liquidity Measure (Yearly Turnover/Issued Capital)	57%
Valuation	
Discounted Cashflow @ 10% Real	$0.72
6 Month Price Target	$0.43

Directors	Company Information
Mr David Wrench	Level 9, 40 The Esplanade
Mr Jeffrey Schneider	Perth, WA, 6000
Mr Simon Ashton	Tel: (08) 6103 0999
Mr Tim Clifton	Fax: (08) 6103 0990
	Web: http://w w w .strikeoil.com.au

Top 10 Shareholders (as at 11/09/07)	m shares	%
Plato Prospecting Pty Ltd	22.52	6.9
Calm Holdings Pty Ltd	20.00	6.1
National Nominees Limited	18.57	5.7
ANZ Nominees Limited	12.33	3.8
S & Y Ashton Nominees Pty	8.53	2.6
Mr James Michael Durrant	8.09	2.5
D B Angliss Pty Ltd	6.00	1.8
Sassey Pty Ltd	5.11	1.6
J P Morgan Nominees	4.51	1.4
Australia Limited	2.80	0.9

Financial Performance	Unit	FY2009A	FY2010F	FY2011F	FY2012F
Net Revenue	**A$m**	**41.2**	**18.9**	**16.5**	**11.8**
Total Costs/Writeoffs	**A$m**	**(26.9)**	**(12.4)**	**(11.0)**	**(5.4)**
EBITDA	A$m	14.3	6.5	5.5	6.4
Depreciation/Amort	A$m	(4.0)	(2.9)	(2.2)	(1.3)
EBIT	**A$m**	**10.3**	**3.6**	**3.3**	**5.1**
Net Interest	A$m	(0.1)	0.1	0.4	0.3
Pre-Tax Profit	**A$m**	**10.2**	**3.7**	**3.7**	**5.4**
Tax Expense	A$m	-	(1.4)	(1.4)	(2.0)
NPAT	**A$m**	**10.2**	**2.4**	**2.4**	**3.4**
Abnormal Items	A$m	-	-	-	-
Reported Profit	A$m	**10.2**	**2.4**	**2.4**	**3.4**

Reserves (30 Jun 09)	Unit	1P	2P*
*estimate			
Rayburn / Mesquite	bcfe	9.20	19.30

Production Summary	Unit	FY2009A	FY2010F	FY2011F	FY2012F
*Attributable					
Liquids	mmbbl	0.08	0.05	0.04	0.03
Gas	bcf	3.21	2.19	1.56	1.08
Total	**mmboe**	**0.61**	**0.42**	**0.30**	**0.21**
Daily Production	boe/d	1,677	1,152	821	570

Financial Position	Unit	FY2009A	FY2010F	FY2011F	FY2012F
Cash	**A$m**	**13.3**	**19.1**	**20.3**	**17.1**
Other Current Assets	A$m	17.8	7.2	6.5	6.0
Total Current Assets	**A$m**	**31.1**	**26.3**	**26.9**	**23.1**
Property, Plant & Equip.	A$m	22.4	20.7	19.7	19.2
Exploration	A$m	13.9	22.7	31.5	40.7
Investments/other	A$m	1.0	1.0	1.0	1.0
Tot Non-Curr. Assets	**A$m**	**37.3**	**44.4**	**52.2**	**60.9**
Total Assets	**A$m**	**68.4**	**70.7**	**79.1**	**84.1**
Short Term Borrow ings	A$m	3.0	3.0	3.0	3.0
Other	A$m	18.0	20.8	25.7	25.7
Total Curr. Liabilities	**A$m**	**21.0**	**23.8**	**28.7**	**28.7**
Long Term Borrow ings	A$m	4.1	4.1	4.1	4.1
Other	A$m	0.3	0.3	0.3	0.3
Total Non-Curr. Liabil.	**A$m**	**4.4**	**4.4**	**4.4**	**4.4**
Total Liabilities	**A$m**	**25.4**	**28.2**	**33.1**	**33.1**
Net Assets	**A$m**	**42.9**	**42.5**	**46.0**	**51.0**

Price Assumptions	Unit	CY2009	CY2010	CY2011	CY2012
US Gas Price	US$/mcf	3.85	6.00	6.50	7.00
Oil	US$/bbl	61.03	75.00	85.00	85.00
Exchange Rate	A$/US$	0.79	0.90	0.85	0.75

Hedging	Unit	FY2009A	FY2010F	FY2011F	FY2012F
Total Forw ard Sales - Oil	mmbbl	-	-	-	-
Forw ard Oil Price	A$/bbl	-	-	-	-

Cashflow	Unit	FY2009A	FY2010F	FY2011F	FY2012F
Operating Cashflow	A$m	29.3	19.8	11.1	6.8
Income Tax Paid	A$m	-	(1.4)	(1.4)	(2.0)
Interest & Other	A$m	(6.5)	(3.0)	0.4	0.3
Operating Activities	**A$m**	**22.8**	**15.5**	**10.2**	**5.2**
Property, Plant & Equip.	A$m	(7.2)	-	-	-
Exploration/Development	A$m	(11.2)	(10.0)	(10.0)	(10.0)
Investments	A$m	2.6	-	-	-
Investment Activities	**A$m**	**(15.8)**	**(10.0)**	**(10.0)**	**(10.0)**
Draw /Repay Borrow ings	A$m	(2.2)	-	-	-
Equity	A$m	-	-	1.1	1.6
Financing Activities	**A$m**	**(2.2)**	**0.4**	**1.1**	**1.6**
Net Cashflow	**A$m**	**4.8**	**5.9**	**1.2**	**(3.2)**

Sensitivity Analysis	Valuation ($/s)	NPAT	EPS (¢)	CFPS (¢)
Base Case	**0.71**	**2.4**	**0.7**	**4.7**
Gas Price +-10%	0.71	3.0	0.9	4.8
Gas Price --10%	0.70	1.7	0.5	4.6
Exchange Rate +-10%	0.78	3.6	1.1	5.0
Exchange Rate --10%	0.65	1.4	0.4	4.5
Oil Price +-10%	0.76	2.4	0.7	4.7
Oil Price --10%	0.65	1.9	0.6	4.7

**N.B. NPAT, EPS, CFPS forecasts are for FY2010*

Share Price Valuation (NAV)	$m	$/share
Rayburn (NPV @ 10%)	40.1	0.12
PEL 96 (Risked Valuation)	50.0	0.15
SC6 (Risked Valuation)	17.1	0.05
Mesquite (NPV @ 10%)	2.2	0.01
Exploration	92.4	0.28
Hybrid (NPV @ 10%)	38.8	0.12
Cash	16.0	0.05
Corporate Overheads	(14.9)	(0.04)
Total Debt	(5.8)	(0.02)
Tax Losses	0.0	0.00
Options & Other Equity	2.86	0.01
Total	**240.07**	0.72

10% real discount rate used for DCF (~13.3% nominal)

Ratio Analysis	Unit	FY2009A	FY2010F	FY2011F	FY2012F
Cashflow Per Share	A¢	6.7	4.7	3.1	1.5
Cashflow Multiple	X	4.4	6.3	9.7	19.3
Earnings Per Share	A¢	3.0	0.7	0.7	1.0
Price to Earnings Ratio	X	9.8	41.2	41.7	29.0
Dividends Per Share	A¢	-	-	-	-
Dividend Yield	%	-	-	-	-
Interest Cover	X	191.3	na	na	na
Return on Equity	%	24%	6%	5%	7%

Analyst: David Wall
Phone: +61 8 9268 2826

Last Updated: 22/01/2010

Sources: IRESS, Company Information, Hartleys Research

HIGHLIGHTS

Strike has a full asset pipeline that is likely to deliver significant growth over many years to come. CY2010 will be a crucial year in terms of the level of success achieved due to the significant amount of activity being undertaken by the Company:

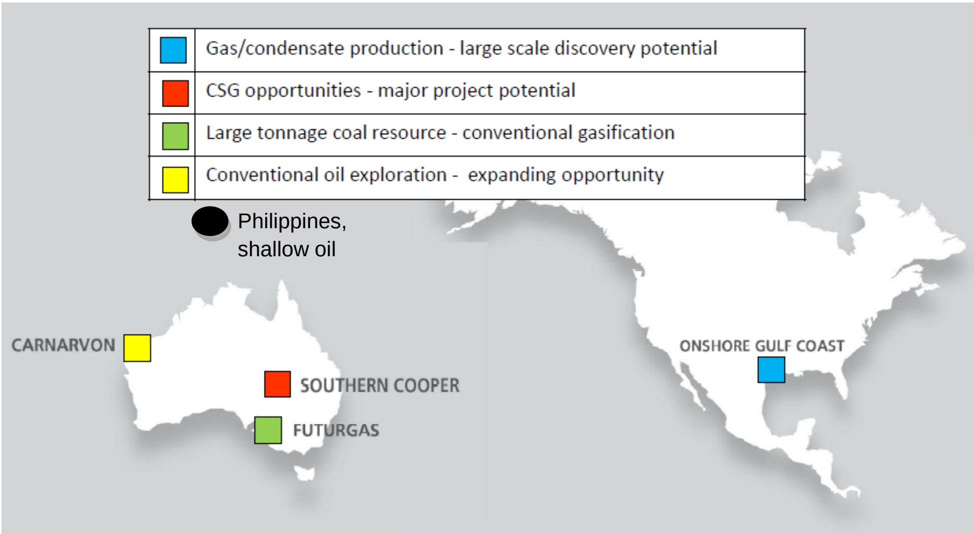
Strong asset pipeline, with good mix of producing assets, development assets and exploration assets. Moderate success at any project is likely to result in significant share price appreciation.

- Rayburn / Mesquite (STX 22.8% / 26.25%) – Strike's producing assets in the USA. Production has recently been ramped up in order to capture increased in oil and gas prices after a period of being choked back. The two projects have 1P reserves of 9.2 billion cubic feet of gas equivalent and 2P reserves of 19 billion cubic feet of gas equivalent (estimated value $42m or 11cps). Significant contingent resource potential remains "behind pipe" or un-appraised.
- Eaglewood Joint Venture Exploration, Texas (STX 30%) – This is the same joint venture that operates at Rayburn and Mesquite. Exploration activity is scheduled to commence shortly, with the first two prospects targeting 30 and 100 billion cubic feet of gas, respectively. A success case in both wells could result in value of ~$80m or 21cps for Strike. Two additional wells are likely to follow, pending results of the first two.
- Cadlao Oilfield, Philippines (STX 80%*) – Strike's acquisition of the Cadlao oilfield is subject to due diligence by the end of Jan 2010 and development commencing in mid year. The field has 2P reserves of 6.3 million barrels of oil and could be worth ~$85m or 23cps for Strike.
- Bateman Lake Joint Venture, Louisiana (STX ~13%) – This is a new joint venture for Strike. Drilling has recently commenced on the first prospect, targeting 15-25 billion cubic feet of gas, with results expected early February. We estimate that success in this well could add $5m or 1.5cps in value for STX. Up to 6 wells may be drilled during CY2010.

PEL 96 could contain 13,000 petajoules of gas in place, net to Strike. Initial core-hole program scheduled to commence in Feb 2010.

- PEL 96, Southern Cooper Basin (STX 66.7%) – This project is targeting net coal seam gas potential of 5,000-12,000 petajoules, which could be worth well in excess of $1 billion, or 270cps, in a success case. A core-hole drilling program is scheduled to commence in Feb 2010. The coals are largely untested for coal seam gas potential at this stage; however, have significant infrastructure advantages over other remote CSG projects. Strike has recently acquired additional acreage in the area, which will help it secure a dominant position if the play is successful.
- EP-424, Carnarvon Basin (STX 40%) – The Baniyas prospect is located in shallow water in the Carnarvon Basin and has potential for 24 million barrels of recoverable oil. The joint venture is currently negotiating to secure part of the structure that extends into the adjacent permit. Drilling could occur in late 2010. We estimate that success at Baniyas could be worth $190m, or 52cps, for Strike.
- FuturGas, South Australia (STX 100%) – Strike has a JORC compliant 578mt lignite coal resource, which is amenable to surface gasification. One possible development option would result in 10,000 barrels of oil equivalent in production per day for over 10 years. Significant work has been completed to date; however, the asset is considered early stage.

Fig. 1: *Project Locations*



Source: Strike Energy Ltd

Background

Strike Energy Limited is an ASX listed oil and gas explorer/producer [Code: STX], founded in 1997. The Company participated in its first well, Longhorn 1 in the Carnarvon Basin in the same year and continued to focus its operations in Australia, resulting in the 250 billion cubic feet Casino gas discovery in 2003, which was later sold. Shortly thereafter, in 2004, Strike listed its offshore drilling operations as Strike Oil Limited, and its coal seam gas assets as Comet Ridge Limited. Since then the Company has expanded into the USA and increased its operational expertise, achieving its first revenue from the Mesquite discovery in 2006. More recently, the Company has experienced success at Rayburn, also in the USA.

Strike has a track record of discovery and commercialisation of assets, with several capital returns made to shareholders since inception.

Fig. 2: *Track Record of Success*

1996 – Commenced exploration activities as private E&P company

2003 – Discovery of Casino gas field (Otway Basin): 250 Bcf

2003 – Casino sold and funds returned to shareholders

2004 – Comet Ridge; multi Tcf CSG play – capital return to shareholders

2004 – Strike Oil Ltd listed on Australian Securities Exchange

2005 – Secured half billion tonne lignite coal deposit-CTL project

2006 – Discovery Mesquite gas/condensate field (USA)

2007 – Discovery Rayburn gas/condensate field (USA)

2009 – Secured multi-TCF CSG opportunity – Cooper Basin

Source: Strike Energy Ltd

Prior to Strike's formation, several key members of the management team were instrumental in building Western Mining's USA oil and gas business, Greenhill Petroleum Corporation, which was sold for US$300m.

PHILIPPINES BUSINESS, BLADE ACQUISITION

Consideration

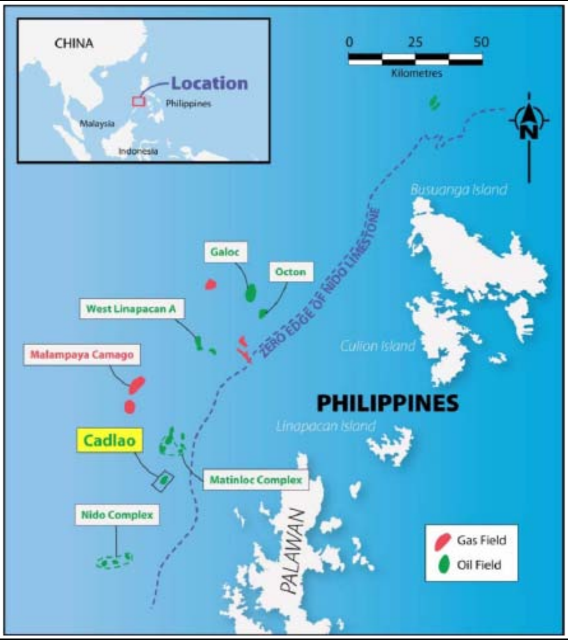
Strike has entered into an option agreement to acquire all of the shares in unlisted Blade Petroleum Ltd. Exercise of the option is subject to due diligence, which is scheduled for completion by the 31st January. Strike will issue the owners 33.3m shares upfront, which implies a value of A$10m @ 30cps. Further performance payments are detailed below:

- $5m in cash or shares (at Strike's election) once free cashflow of A$10m is received from Cadlao
- a further $5m in cash or share once free cashflow of A$20m is received from Cadlao.

*any shares issued will be done at 5 day VWAP prior to hurdle being met

Blade acquisition could add >A85m or 23cps in value for Strike. Low risk development as has 1P reserves of 3.6 million barrels, 2P reserves of 6.3 million barrels. Revenue possible by early 2011.

Fig. 3: Cadlao Oilfield Location



Source: Strike Energy Ltd

Project

The Blade acquisition will give Strike an 80% interest in the Cadlao oilfield, located in SC6 offshore in the Philippines. The field produced 11 million barrels between 1981 and 1991 before being shut-in at ~1,000 barrels of oil per day with the oil price at ~US$20 per barrel. At US$74 average oil prices, independent consultant RISC estimated that the field has remaining 2P reserves of 6.3 million barrels.

Blade progressed the project throughout the global financial crisis and the Plan of Development for the field was approved in 2009. Economics for the development of the field are best (as with all projects) when costs are low but prices are robust. The current environment has both these characteristics, with rig rates and service contractor fees yet to substantially increase in line with the rise in oil prices. This means that timing is ideal for development of this project, which may become marginal in a higher cost environment. Strike, through Blade, will seek to lock in as much of its upfront costs as possible, potentially with some indexing to the oil price to ensure protection for the Company as well as contractors.

The table below details the relevant metrics for the Cadlao oilfield:

Fig. 4: *Cadlao Oilfield Metrics*

Unit	Description
Reserve / Resource	6.3 mmbbl 2P reserve (3.6mmbbl 1P)
Production	Estimated 5,000-10,000 barrels per day from two wells in Phase 1 development.
Geology	Pinnacle reef limestone reservoir
Depth	Water depth 90m (subsea mound nearby at 20m) Reservoir depth 1,750m
Capital Cost	US$40m (gross Phase 1 capex Hartleys estimate). Plan of Development approved.
Operating Costs	US$150k per day (gross Hartleys estimate). FPSO lease and rig costs.
Fiscal Regime	60/40 profit oil split (40% contractor), 70% cost recovery, 8% royalty, 7.5% FPIA* allowance, up to 1 million barrels tax-free for an extended production test. Based on 1972 production sharing contract.

Source: Hartleys, *Filipino Participation Incentive Allowance

Nido Petroleum Ltd and Kairiki Energy Ltd recently finalised a farmout with Trafigura Ventures III B.V. for US$11m for a 15% working interest in the SC54A block, which contains the Yakal and Tindalo discoveries. These discoveries have not been flow tested and are currently categorised as contingent resources, with estimated recoverable resources of ~4 million barrels (based on oil in place of 16 million barrels and recovery of 40%). Using these transaction metrics would value Strike's share of Cadlao at ~US$90m or 27cps.

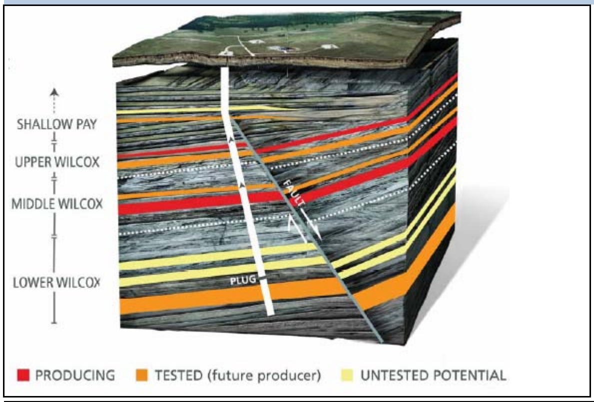
USA BUSINESS

Rayburn / Mesquite, Onshore USA (STX 22.8% / 26.25%)

The Rayburn and Mesquite assets are currently producing (net to STX) at 700 barrels of oil equivalent per day (using a 10 to 1 conversion ratio for gas production). The fields are categorised as gas fields; however, produce significant amount of light oil and condensate.

Significant appraisal potential remains at Rayburn, with net contingent resources of 36 billion cubic feet of gas equivalent.

Fig. 5: *Multiple Pay Zones in USA*



Source: Strike Energy Ltd

Fig. 6: Rayburn / Mesquite Metrics

Unit	Description
Reserve / Resource	1P 9.2 billion cubic feet of gas equivalent 2P 19.3 billion cubic feet of gas equivalent Significant contingent resource identified behind pipe (net 36.5 billion cubic feet of gas equivalent)
Production	~6 million cubic feet of gas per day ~120 barrels of condensate per day
Geology	Middle Wilcox primary reservoir target
Depth	3,700m
Capital Cost	US$5m completed gross well cost
Operating Costs	US$0.15 per mcfe

Source: Hartleys

Strike's USA exploration portfolio has potential of ~250 billion cubic feet of gas equivalent, most of which is on trend to existing discoveries. Up to 10 wells will be drilled in 2010. The first three wells in the program (which has commenced) will target net resource potential for STX of > 40 billion cubic feet of gas.

Exploration, Onshore USA (STX ~13%-30%)

Strike has two joint ventures in the USA and both have active drilling campaigns this year, with up to 10 wells planned. Total net resource potential for STX is ~250 billion cubic feet of gas, which could add up to 150cps in value for the Company.

The Eaglewood Joint Venture discovered the Rayburn and Mesquite fields and has an exploration success rate of 50%. We do not expect this exceptional rate to continue; however, we do believe a 25% conversion rate to be appropriate for forecasting future success. Strike has a 30% interest in the exploration program for this joint venture, which is targeting recoverable resources net to the Company of 200 billion cubic feet of gas. The first two wells in the program are targeting gross resources of 30 billion cubic feet of gas and 100 billion cubic feet of gas and are scheduled to commence sometime in February 2010.

Strike recently entered the Bateman Lake Joint Venture, which operates onshore in Louisiana. The Company has initially opted to take a smaller exposure in this joint venture (minimum ~13%) but may increase pending success. The first well in this program has recently spudded and results should be known in early February. The well is targeting gross resources of 15-25 billion cubic feet of gas.

AUSTRALIA BUSINESS

Southern Cooper Basin (STX 35%-100%)

In May 2009, Strike was awarded PEL 96 (STX 66.7%) in the Southern Cooper Basin, South Australia. The permit is Strike's primary focus in the area and is prospective for coal seam gas ("CSG") and underground coal gasification ("UCG"). Many key attributes have been defined by existing wells and seismic that was focussed on conventional resources. The Company's initial focus will be on the CSG potential, which has been estimated at net 5,000-12,000 petajoules of gas in place. The resource will be tested by core hole drilling, scheduled to commence February 2010. This will then be followed by pilot production wells, required to confirm initial reserves. It is also worthwhile noting that the core hole program will test the underground coal gasification potential of the coals. The CAD$30m Swan Hills Synfuels demonstration project in Alberta, Canada, recently successfully gasified coals at a depth of 1,400m (STX coal depths from 800m-1,800m see table below).

PEL 96 coals are deeper than the many of the producing coals in Queensland and are untested; howver, significant infrastructure advantage exist. Core hole drilling commences in Feb 2010.

As indicated in the summary below, Strike's acreage has a competitive advantage versus other remote CSG projects due to the significant infrastructure that runs through the permit. The risk associated with the permit is still moderately high; however, as no core samples have been taken to date; however, prior petroleum wells have confirmed the presence and thickness of the coals in the area. This risk will be largely quantified by the upcoming drilling program.

Fig. 7: PEL 96 Project Summary

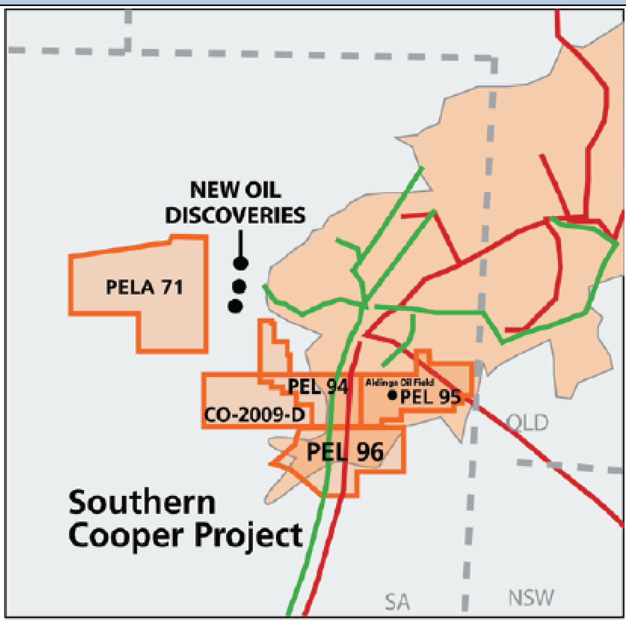
Thick coal seams	Numerous coal seams up to 18 metres thick. Composite thickness up to 80 metres	Attributes based on existing oil wells and seismic
Laterally extensive coal seams	1,800 sq km (or 450,000 acres) in PEL 96	
Depth of coal seams	Coal intersections from 1,000 metres to 1,800 metres (potential as shallow as 900 metres)	
Market access/competition	Unique location to access Eastern States markets, 150 TJ/day capacity available on Moomba to Adelaide pipeline (open access)	
Economics	Scoping economics positive	
Gas contents of the coal	Potential Range: 5 – 10 m³/tonne	To be determined from drilling, testing and pilot (To commence within 4 months)
Permeability of the coal	Target 100 milli-darcy (md) plus	
Gas CO_2 content	Target less than 2%	
Reserves	Prospective gas in place resource modelled at 7,000 - 19,000 PJ (STX share 5,000 – 12,000 PJ) (MBA Petroleum Consultants – independent confirmation)	

Source: Strike Energy Ltd

Strategic acreage position acquired with additional CSG, UCG and conventional oil potential. Represents 2% of South Australian land mass.

Strike has recently acquired increased acreage in the area surrounding PEL 96, bringing its total exposure in region to 17,600 km^2. Strike's permits and interests are as follows: PEL 96 (66.7%), PELA 71 (75%), PEL 34 (35%), PEL 95 (50%), PPL 210 (50%) and CO2009-D (100%). These permits have potential for CSG, UCG and conventional oil. This provides Strike with a strategically dominant position as well as several different play types to explore across multiple horizons.

Fig. 8: Increased Acreage Position



Source: Strike Energy Ltd

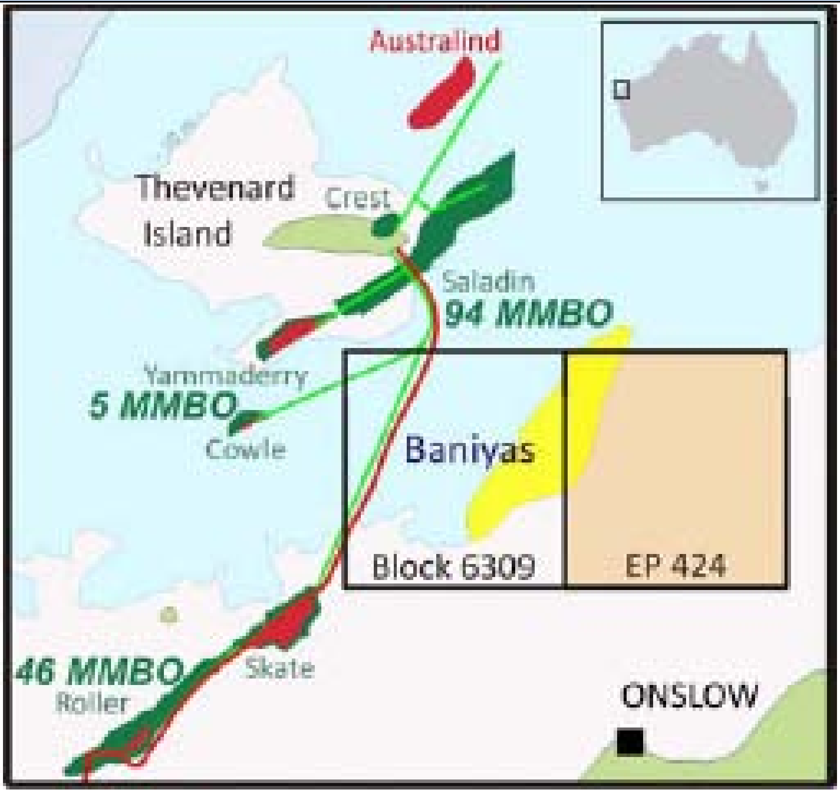
EP 424, Western Australia (STX 40%, operator)

Finalisation of advanced negotiations to secure entirety of the structure could result in drilling of Baniyas in 2010. Could add >50cps for Strike at current equity interest.

Strike holds several large working interests in permits located in shallow water in the Carnarvon Basin, the most significant of which is permit EP-424. This permit contains the largest undrilled shallow water prospect in the Carnarvon Basin, Baniyas, which has a mean recoverable potential of 24 million barrels of oil.

Strike is in the process of securing rights over the entire Baniyas prospect, as it extends into the adjacent permit, which is owned by the Thevenard Island Joint Venture, operated by Chevron. It is possible that this process may be completed in the near term, with drilling achievable in 2H 2010.

Fig. 9: Baniyas Prospect



Source: Strike Energy Ltd

FuturGas Project, South Australia (STX 100%)

"Sleeper"coal gasification project with huge potential. Increased interest in the space has resulted in several recent deals.

Through its wholly owned subsidiary, Hybrid Energy Australia Pty Ltd, Strike owns a 578mt, JORC compliant, lignite (brown coal) resource in South Australia.

The project is considered a clean coal project, which will aim to use the coal for power generation and/or fertiliser production / liquids production via coal to liquids ("CTL") technology, with CO_2 side products being injected into nearby underground structures in the Otway Basin. A recent agreement between Hybrid and the University of Adelaide should help the Company develop the most efficient and environmentally friendly combustion and gasification method for processing the lignite. The University has many years of research expertise in this area and will aid in the development of a Feasibility Study.

ANALYSIS AND VALUATION

ASSUMPTIONS

The following table details the pricing and exchange rate assumptions used in our modelling.

Fig. 10: Commodity and Exchange Rate Assumptions

Variable	Unit	CY10	CY11	CY12+
AUDUSD	$A/$US	0.90	0.85	0.77
Oil Price	$US/bbl	75	85	85
US Gas Price	$US/mcf	6.00	6.50	7.00

Source: Hartleys

VALUATION

Rayburn / Mesquite

Core asset value of 16cps. Near term uplift in share price possible from exploration in the USA, CSG core-hole drilling in SA and development potential in the Philippines.

Hartleys' valuation of Rayburn / Mesquite is based on a discounted cash flow model and only includes success from the Middle Wilcox formation. It should be noted that potential from other stacked pay exists in the region.

The valuation assumes recovery of ~8 billion cubic feet of gas and 270,000 barrels of condensate (net to STX) over 10 years. Ongoing opex is assumed at US$0.50 per mcf.

A 36.5% effective tax rate is assumed, comprised of 35% corporate tax with 1.5% state tax.

Production rate decline means that 75% of ultimate recovery is produced in the first 2-3 years, after which the decline is relatively flat.

These assumptions generate a valuation for the Middle Wilcox at Rayburn / Mesquite of A$42.3m or 11cps.

PEL 96

In our valuation of PEL 96, we have assumed 40% recovery of the low case estimate of net in place resource of 5,000PJ. We have then placed a value on this of $0.50 per mcf and a probability of success of 5% to arrive at a valuation of $33.3m or 10cps.

We have also modelled a 15TJ/d project as part of a Phase 1 development using cost assumptions of $3m per year fixed opex and capex of $3m per well with $25m start-up capex, which gives an NPV10 valuation of A$50m or 14cps.

We believe that both of these valuations are very conservative given that the upside potential (unrisked) of the permit for Strike could be several billion dollars.

SC 6, Cadlao Oilfield

We have valued the Cadlao oilfield using a base case of 6.3 million barrels of reserves, upfront capex of US$40m and opex of US$150,000 per day. The fiscal assumptions are a 60/40 profit oil split (40% contractor), 70% cost recovery, 8% royalty, 7.5% FPIA* allowance and up to 1 million barrels tax-free for an extended production test.

These assumptions result in a valuation of A$86m or 23cps, which we have discounted by 80% to reflect risk related to the deal and uncertainty about the development concept, which is yet to be announced. This gives us a final valuation of A$17m or 5cps.

FuturGas Project

Our valuation of Hybrid assumes an open cut mine and full scale production plant, with capex of $1.1b. Opex is assumed at A$40 per barrel of fuel produced. Production of 10,000 barrels of fuel is assumed to commence in 2017.

These assumptions result in a DCF valuation of ~$387m, which we have further discounted by 90% for technical risk and uncertainty to arrive at a valuation of $38.8m or 10cps.

Exploration

Exploration potential cannot be overstated – conservative Probability of Success of 10% used; however, likely to be closer to 25%, especially for USA projects. Upside potential >237cps.

Strike has significant exploration potential, both in the USA and in Australia. These have been valued on a risked basis using the assumptions set out below. We have used a probability of success for most exploration of 10%; however, we believe that the USA, in particular, should experience a success rate closer to 25%, indicating that our exploration valuation is conservative.

Fig. 11: *Exploration Valuation*

Prospect / Project	Mean Net Recoverable Resource	NPV per bbl	POS *	Risked Value	Risked cps	Unrisked cps
Baniyas	9.6mmbbl oil	A$20/bbl	10%	A$19m	5.2cps	52cps
Rayburn	36.5bcfe gas	A$2.5/mcf	10%	A$9.1m	2.5cps	25cps
Eaglewood JV	160bcf gas 4mmbbl cond	A$2.5/mcf A$25/bbl	10%	A$50m	13.5cps	135cps
Bateman Lake JV	25bcf gas 0.6mmbbl cond	A$2.5/mcf A$25/bbl	10%	A$8m	2.1cps	21cps
Rivoli	6.2bcf gas	A$2.5/mcf	40%	A$6.2m	1.7cps	4cps
Total				**A$92.3m**	**25cps**	**237cps**

Source: Hartleys

Valuation Summary

Fig. 12: *Valuation Summary*

Project/Item	A$m	$/share
Rayburn (NPV @ 10%)	40.1	0.11
PEL 96 (Risked Valuation)	50.0	0.14
Cadlao (NPV @ 10%)*	17.1	0.05
Mesquite (NPV @ 10%)	2.2	0.01
Exploration	92.4	0.25
Hybrid (NPV @ 10%)	38.8	0.10
Cash	16.0	0.04
Corporate Overheads	(14.9)	(0.04)
Total Debt	(5.8)	(0.02)
Tax Losses	0.0	0.00
Options & Other Equity	2.86	0.01
Total	**240.03**	**0.65**

Source: Hartleys, *NPV discounted by 80% for risk

CONCLUSION

Four projects considered to have significant value potential, with USA and Philippines considered low risk. Significant catalysts throughout CY2010.

The next six to twelve months could be transformational for Strike, with moderate success from any of four project areas likely to result in significant share price appreciation. In particular, the CSG potential in PEL 96 represents multiple billions of dollars in the success case, although this value would take several years to be realised. In the near term, exploration activity at its prospective US acreage has commenced and we expect that up to 10 wells could be drilled in CY2010. Strike and its partners have an excellent rate of success for in the USA and if this continues the Company should be able to exceed the profitability of FY2009, where it generated A$10m NPAT. In addition to this, Strike has medium term production potential from the likely acquisition of Blade and its shallow oilfield development in the Philippines. This could be generating cash for the Company by early 2011. Strike also has other exploration potential that may be tested, including the Baniyas prospect, which may be drilled later this year. Finally, the Company has a “sleeper” project involving its large JORC compliant coal deposit, which is prospective for gasification. There has been considerable activity in this space and we expect this to continue, which could elevate the project into a more active state.

These projects provide Strike with a very full, but well rounded asset pipeline, which we believe will result in significant growth for the Company over the next few years. The current share price, in our opinion, only reflects a portion of the possible growth from only one of these projects indicating that exposure to the other assets can be obtained for free. We rate Strike Energy Ltd as a BUY with a short term price target of 39cps.

HARTLEYS RESEARCH COVERAGE LIST

Hartleys Research Coverage Name	Ticker	Last Price*	M. CAP (A$m)	EV (A$m)	Hartleys Research Recommendation	Industry
Oil & Gas						
1. Woodside Petroleum Ltd	WPL	47.74	35,739	38,636	Buy	Major
2. Eastern Star Gas Ltd	ESG	0.885	722	644	Buy	Producer / Explorer
3. Carnarvon Petroleum Ltd	CVN	0.575	394	365	Buy	Producer / Explorer
4. Nexus Energy Ltd	NXS	0.320	301	482	Speculative Buy	Developer / Explorer
5. Tap Oil Ltd	TAP	1.12	175	127	Buy	Producer / Explorer
6. Cooper Energy Ltd	COE	0.520	152	56	Buy	Producer / Explorer
7. Red Fork Energy Ltd	RFE	1.04	142	114	Buy	Explorer / Producer
8. Strike Energy Ltd	STX	0.325	117	107	Buy	Explorer / Producer
9. Amadeus Energy Ltd	AMU	0.265	81	127	Buy	Producer / Explorer
10. Oilex Ltd	OEX	0.200	44	24	Speculative Buy	Explorer / Producer
11. First Australian Resources Ltd	FAR	0.066	43	24	Speculative Buy	Explorer / Producer
12. European Gas Ltd	EPG	0.150	30	94	Speculative Buy	Producer / Explorer
13. Sun Resources NL	SUR	0.085	29	19	Speculative Buy	Explorer / Producer
14. Adelphi Energy Ltd	ADI	0.170	25	18	Speculative Buy	Junior
		Sub-Total	37,994	40,837		
Resources						
1. Riversdale Mining Limited	RIV	8.22	1,549	1,281	Speculative Buy	Coal
2. Atlas Iron Limited	AGO	2.32	1,037	857	Buy	Iron Ore
3. Western Areas NL	WSA	5.31	950	1,129	No Rating	Nickel
4. Medusa Mining Limited	MML	3.28	553	520	No Rating	Gold
5. Dominion Mining Limited	DOM	3.53	363	412	Speculative Buy	Gold
6. Jabiru Metals Limited	JML	0.425	232	213	Buy	Zinc-Copper
7. Gold One International Limited	GDO	0.305	219	134	Buy	Gold
8. Silver Lake Resources	SLR	1.14	203	173	Speculative Buy	Gold
9. Intrepid Mines Limited	IAU	0.295	126	79	Speculative Buy	Gold
10. Magma Metals Limited	MMB	0.760	124	103	Speculative Buy	PGM-Cu-Ni
11. Peninsula Minerals Ltd	PEN	0.050	69	60	Speculative Buy	Uranium Developer / Explorer
12. Emmerson Resources Limited	ERM	0.280	57	44	Speculative Buy	Junior Explorer
13. Shaw River Resources Limited	SRR	0.250	49	42	Speculative Buy	Junior Explorer
14. YTC Resources Limited	YTC	0.240	39	27	Buy	Junior Explorer
15. Orion Gold NL	ORN	0.050	37	34	Speculative Buy	Gold
16. Ausquest Limited	AQD	0.130	30	3	Speculative Buy	Junior Explorer
17. Impact Minerals Limited	IPT	0.225	21	17	Speculative Buy	Junior Explorer
18. Southern Gold Limited	SAU	0.140	20	16	Speculative Buy	Junior Explorer
19. Ferrum Crescent Limited	FCR	0.115	18	16	Speculative Buy	Iron Ore
20. Hazelwood Resources Ltd	HAZ	0.175	18	14	Speculative Buy	Junior Explorer
		Sub-Total	5,638	5,111		
Industrials						
1. West Australia News Hdgs Ltd	WAN	7.67	1,653	1,970	Buy	Media
2. Monadelphous Group Limited	MND	14.120	1,198	1,069	Neutral	Mining Services
3. Clough Limited	CLO	0.935	625	670	No Rating	Oil & Gas Services
4. Mermaid Marine Australia Ltd	MRM	3.09	563	615	Buy	Oil & Gas Services
5. NRW Holdings Ltd	NWH	2.100	528	568	Buy	Mining & Civil Construction
6. Macmahon Holdings Limited	MAH	0.650	477	479	Speculative Buy	Mining & Civil Construction
7. Fleetwood Corporation	FWD	8.75	451	463	Neutral	Consumer & Mining Services
8. Ausdrill Limited	ASL	2.060	431	653	Buy	Mining Services (Drilling &
9. Austal Limited	ASB	2.28	429	335	Speculative Buy	Capital Goods
10. Neptune Marine Ltd	NMS	0.665	299	274	Buy	Oil & Gas Services
11. Cash Converters Limited	CCV	0.700	255	206	Buy	Retail & Consumer Finance
12. Southern Cross Electrical	SXE	1.59	191	167	Buy	Mining & Civil Construction
13. Decmil Group Limited	DCG	1.45	170	152	Buy	Mining & Civil Construction
14. Imdex Ltd	IMD	0.750	145	167	Buy	Oil & Gas / Mining Drilling
15. RCR Tomlinson Ltd	RCR	1.035	136	185	Buy	Mining & Industrial Services
16. Lycopodium Limited	LYL	3.150	119	116	Buy	Mining & Industrial Services
17. VDM Group Limited	VMG	0.505	106	141	Buy	Mining & Civil Construction
18. Swick Mining Services Ltd	SWK	0.565	86	140	Buy	Mining Services (Drilling)
19. LogiCamms Limited	LCM	0.910	55	47	Buy	Resource Services
20. Nomad Building Solutions Ltd	NOD	0.320	43	69	Reduce	Residential & Mining Services
		Sub-Total	7,961	8,485		
		GRAND TOTAL	51,593	54,433		

Source: IRESS, Hartleys Research. * 18 Jan 2010

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Hartleys Recommendation Categories

No Rating	No recommendation.
Buy	Share price appreciation anticipated
Speculative Buy	Share price appreciation anticipated but it is higher risk than a “Buy”. For the share price to rise it may be contingent on the outcome of an uncertain or distant event.
Neutral	Take no action. Stock is already trading near the share price target and there are no foreseeable near term catalysts.
Reduce / Take profits	Stock is trading above the share price target and there is a near term negative catalyst that could cause temporary weakness.
Sell	Significant price depreciation anticipated

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Hartleys has provided and continues to provide corporate advice to Strike Oil Limited for which it has received fees.

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